

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF
MILWAUKEE, INC. AND FOUNDATION**

Milwaukee, Wisconsin

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2016 and 2015

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation
Milwaukee, Wisconsin

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation (the "Agency"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Agency as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *State Single Audit Guidelines*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2017 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
April 24, 2017

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 2016 and 2015

ASSETS		
	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,147,206	\$ 1,242,514
Accounts receivable	122,147	65,568
Grants receivable	277,472	235,961
Unconditional promises to give	1,120,755	1,085,015
Other current assets	68,324	58,824
Total Current Assets	2,735,904	2,687,882
 PROPERTY AND EQUIPMENT	 1,133,154	 1,198,193
OTHER ASSETS		
Investments	1,735,366	1,608,856
Long-term unconditional promises to give	50,000	-
Other long-term assets	52,000	52,000
Total Other Assets	1,837,366	1,660,856
 TOTAL ASSETS	 \$ 5,706,424	 \$ 5,546,931
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 48,259	\$ 60,876
Accounts payable	60,640	210,332
Accrued payroll	161,789	133,575
Accrued liabilities	31,082	50,465
Grant advance payable	81,700	59,450
Total Current Liabilities	383,470	514,698
LONG-TERM LIABILITIES		
Long-term debt	621,048	688,828
Pension reversion agreement	-	3,384
Asset retirement obligation	32,737	41,533
Total Liabilities	1,037,255	1,248,443
NET ASSETS		
Unrestricted	1,581,412	1,452,885
Temporarily restricted	1,529,828	1,287,674
Permanently restricted	1,557,929	1,557,929
Total Net Assets	4,669,169	4,298,488
 TOTAL LIABILITIES AND NET ASSETS	 \$ 5,706,424	 \$ 5,546,931

See accompanying notes to consolidated financial statements.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES For The Years Ended December 31, 2016 and 2015

	2016		2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		
PUBLIC SUPPORT						
Government grants	\$ 2,302,692	\$ -	\$ -	\$ 2,302,692		
Archdiocese of Milwaukee	601,552	576,552	-	1,178,104		
United Way	413,434	392,273	-	805,707		
Contributions	1,403,040	351,459	-	1,754,499		
In-kind contributions	102,160	-	-	102,160		
Special events	30,575	-	-	30,575		
Net assets released from restriction	1,204,640	(1,204,640)	-	-		
Total Public Support	<u>6,058,093</u>	<u>115,644</u>	<u>-</u>	<u>6,173,737</u>		
			Unrestricted	Temporarily Restricted	Permanently Restricted	Total
			1,430,445	\$ -	\$ -	\$ 1,430,445
			672,644	576,552	-	1,249,196
			351,868	515,294	-	867,162
			1,226,428	117,778	-	1,344,206
			160,680	-	-	160,680
			21,510	-	-	21,510
			1,457,145	(1,457,145)	-	-
			5,320,720	(247,521)	-	5,073,199
REVENUE						
Program fees	1,103,451	-	940,192	-	-	940,192
Investment income (loss)	10	126,510	(905)	(40,992)	-	(41,897)
Rental revenue	3,645	-	43,740	-	-	43,740
Other	9,962	-	15,715	-	-	15,715
Total Revenue	<u>1,117,068</u>	<u>126,510</u>	<u>998,742</u>	<u>(40,992)</u>	<u>-</u>	<u>957,750</u>
Total Public Support and Revenue	<u>7,175,161</u>	<u>242,154</u>	<u>6,319,462</u>	<u>(288,513)</u>	<u>-</u>	<u>6,030,949</u>
EXPENSES						
Program	6,458,210	-	5,239,674	-	-	5,239,674
Management and general expenses	68,073	-	132,804	-	-	132,804
Fundraising	520,351	-	359,240	-	-	359,240
Total Expenses	<u>7,046,634</u>	<u>-</u>	<u>5,731,718</u>	<u>-</u>	<u>-</u>	<u>5,731,718</u>
CHANGE IN NET ASSETS	128,527	242,154	587,744	(288,513)	-	299,231
NET ASSETS - Beginning of Year	<u>1,452,885</u>	<u>1,287,674</u>	<u>865,141</u>	<u>1,576,187</u>	<u>1,557,929</u>	<u>3,999,257</u>
NET ASSETS - END OF YEAR	<u>\$ 1,581,412</u>	<u>\$ 1,529,828</u>	<u>\$ 1,452,885</u>	<u>\$ 1,287,674</u>	<u>\$ 1,557,929</u>	<u>\$ 4,298,488</u>

See accompanying notes to consolidated financial statements.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 370,681	\$ 299,231
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	97,408	78,876
Net realized and unrealized (gains)/losses on investments	(108,623)	59,909
Accretion of asset retirement obligation	953	512
Provision for bad debts	28,545	22,528
Changes in assets and liabilities		
Receivables	(126,635)	48,232
Unconditional promises to give	(85,740)	185,598
Other current assets	(9,500)	(8,818)
Accounts payable	15,165	(13,348)
Accrued expenses	8,831	(6,682)
Pension reversion payments	(3,384)	(858)
Grant advance payable	<u>22,250</u>	<u>19,400</u>
Net Cash Flows from Operating Activities	<u>209,951</u>	<u>684,580</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(197,226)	(148,210)
Purchase of investments	(17,887)	(18,917)
Proceeds from sale of investments	<u>-</u>	<u>19,420</u>
Net Cash Flows from Investing Activities	<u>(215,113)</u>	<u>(147,707)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(80,397)	(40,136)
Proceeds from long-term debt	-	454,000
Payment on asset retirement obligation	<u>(9,749)</u>	<u>-</u>
Net Cash Flows from Financing Activities	<u>(90,146)</u>	<u>413,864</u>
 Net Change in Cash and Cash Equivalents	(95,308)	950,737
 CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,242,514</u>	<u>291,777</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,147,206</u>	<u>\$ 1,242,514</u>
 Cash paid for interest	\$ 38,738	\$ 19,432
 Noncash investing and financing activities		
Equipment acquired through accounts payable	\$ -	\$ 164,857
Refinancing of mortgage payable	\$ 272,000	\$ -

See accompanying notes to consolidated financial statements.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended December 31, 2016

	Program										Total Program	Management and General	Fundraising	Total
	Adult Day Service	Behavioral Health	Child Welfare	In-Home Support	Legal Services	MRS	Outreach	Total Program	Management and General	Fundraising				
Salaries and wages	\$ 177,077	\$ 721,132	\$ 225,614	\$ 294,061	\$ 268,407	\$ 858,469	\$ 291,892	\$ 2,836,652	\$ 355,466	\$ 109,734	\$ 3,301,852			
Employee Benefits	39,874	116,716	41,909	55,532	40,382	170,017	40,233	504,663	54,660	17,043	576,366			
Payroll tax expense	17,175	58,760	19,430	28,299	24,545	78,465	24,312	250,986	25,690	8,453	285,129			
Total Salaries and Related Expenses	234,126	896,608	286,953	377,892	333,334	1,106,951	356,437	3,592,301	435,816	135,230	4,163,347			
Operations	3,097	35,682	1,966	572	43,106	7,964	2,767	95,154	54,338	184,235	333,727			
In-kind	-	19,947	9,637	-	22,498	33,962	-	86,044	16,116	-	102,160			
Specific assistance to clients	39,660	700	1,223	10	1,109	1,169,037	7,279	1,219,018	-	-	1,219,018			
Rent and occupancy	53,064	113,874	35,261	40,505	38,506	130,948	47,457	459,615	75,023	10,281	544,919			
Supplies	4,951	14,123	4,861	2,797	9,762	19,833	3,421	59,748	11,230	1,035	72,013			
Promotions and advertising	-	-	-	489	-	448	-	937	11,200	13,834	25,971			
Professional fees	-	18,109	1,772	-	14,619	23,775	-	58,275	163,401	142,348	364,024			
Travel and meetings	74	8,648	12,679	13,773	3,041	39,227	7,820	85,262	18,537	318	104,117			
Bad debt	4,557	19,199	-	3,012	-	-	1,250	28,018	527	-	28,545			
Special events	-	-	-	-	-	-	-	-	228	10,856	11,084			
Other expenses	4,728	10,823	5,068	427	12,703	15,423	2,819	51,991	24,883	835	77,709			
Total	344,257	1,137,713	359,420	439,477	478,678	2,547,568	429,250	5,736,363	811,299	498,972	7,046,634			
Allocated expenses	52,395	151,888	56,372	99,278	58,838	234,263	68,813	721,847	(743,226)	21,379	-			
Total Expenses	\$ 396,652	\$ 1,289,601	\$ 415,792	\$ 538,755	\$ 537,516	\$ 2,781,831	\$ 498,063	\$ 6,458,210	\$ 68,073	\$ 520,351	\$ 7,046,634			

See accompanying notes to consolidated financial statements.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended December 31, 2015

	Program										Total Program and General	Fundraising	Total
	Adult Day Service	Behavioral Health	Child Welfare	In-Home Support	Legal Services	MRS	Outreach	Total Program	Management and General	Fundraising			
Salaries and wages	\$ 177,507	\$ 694,113	\$ 241,860	\$ 257,479	\$ 261,762	\$ 630,023	\$ 302,171	\$ 2,564,915	\$ 324,674	\$ 131,866	\$ 3,021,455		
Employee Benefits	32,190	100,210	34,382	33,896	116,134	96,305	33,974	447,091	43,897	20,732	511,720		
Payroll tax expense	18,379	60,212	22,272	27,528	24,269	58,348	26,571	237,579	22,879	9,215	269,673		
Total Salaries and Related Expenses	228,076	854,535	298,514	318,903	402,165	784,676	362,716	3,249,585	391,450	161,813	3,802,848		
Operations	3,565	30,990	3,066	1,905	29,528	4,477	3,028	76,559	30,305	128,519	235,383		
In-kind	-	68,905	8,528	-	20,196	34,967	-	132,596	28,085	-	160,681		
Specific assistance to clients	32,871	-	2,461	215	719	537,759	45,300	619,325	-	-	619,325		
Rent and occupancy	46,077	92,995	36,699	36,200	38,930	74,188	51,305	376,394	58,127	6,196	440,717		
Supplies	5,416	17,948	6,059	5,694	10,470	8,864	4,884	59,335	18,005	926	78,266		
Promotions and advertising	505	389	443	594	-	603	202	2,736	10,779	3,357	16,872		
Professional fees	-	17,828	2,236	169	15,603	385	39	36,260	121,778	24,475	182,513		
Travel and meetings	321	9,870	12,988	11,718	2,860	23,531	9,451	70,739	7,305	646	78,690		
Bad debt	12,697	-	1,627	8,204	-	-	-	22,528	-	-	22,528		
Special events	-	-	-	-	-	-	-	-	-	2,960	2,960		
Other expenses	2,483	14,476	4,643	1,245	7,406	6,545	3,346	40,144	48,474	2,317	90,935		
Total	332,011	1,107,936	377,264	384,847	527,877	1,475,995	480,271	4,686,201	714,308	331,209	5,731,718		
Allocated expenses	39,461	132,916	52,170	79,147	50,899	134,409	64,471	553,473	(581,504)	28,031	-		
Total Expenses	\$ 371,472	\$ 1,240,852	\$ 429,434	\$ 463,994	\$ 578,776	\$ 1,610,404	\$ 544,742	\$ 5,239,674	\$ 132,804	\$ 359,240	\$ 5,731,718		

See accompanying notes to consolidated financial statements.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

The consolidated financial statements include the accounts of Catholic Charities of the Archdiocese of Milwaukee, Inc. ("Catholic Charities") and its related entity, Catholic Charities Foundation of the Archdiocese of Milwaukee, Inc. (the "Foundation"). The entities are collectively known as the Agency.

Catholic Charities is a nonprofit corporation whose mission ("a way of caring"), inspired by Christ's call to serve and Catholic social teachings is to help build a just and caring community by providing social services to those in need and by advocating for justice and equality in all societal structures. The mission is carried out primarily within the ten-county Archdiocese of Milwaukee area in response to local needs and in collaboration with other organizations.

The Foundation is a nonprofit corporation whose mission is to provide support to Catholic Charities through major donor development and investment management, thereby generating income which is used to further the mission and activities of Catholic Charities.

Basis of Accounting

The financial statements are presented on a consolidated basis, with all significant intercompany transactions eliminated in consolidation.

Cash and Cash Equivalents

The Agency defines cash and cash equivalents as highly liquid, short term investments with a maturity at the date of acquisition of three months or less.

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). The Agency records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the consolidated statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Accounts and Grants Receivable

The Agency uses the allowance method to account for uncollectible accounts and grants receivable. The allowance is based on historical collection experience and a review of the current status of accounts and grants receivable. Receivables deemed uncollectible are charged against the allowance. Accounts and grants receivable are presented net of an allowance for doubtful accounts of \$17,625 and \$4,034 at December 31, 2016 and 2015, respectively.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies (continued)

Unconditional Promises to Give

Unconditional promises to give made to the Agency are recorded in the year the pledge is made. Amounts that are expected to be collected after one year are discounted and reflected in the consolidated financial statements at their net present value. An allowance for uncollectible promises to give is determined based on specific identification. The allowance for unconditional promises to give at December 31, 2016 and 2015 was \$4,800 and \$11,700, respectively.

Other Current Assets

Other current assets consist of assets held for sale and a security deposit. Since 1998, the Agency has received donations of sixteen burial plots and one burial crypt located in five local cemeteries. These assets are listed for sale at a discounted value and are reported at this value.

Property and Equipment

Property and equipment are stated at cost if purchased or fair value at date of the gift, if donated. Acquisitions of property and equipment in excess of \$3,000 and expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and immaterial acquisitions funded through grants are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Property and equipment are depreciated using the straight line method (half year convention) over their estimated useful lives. Estimated useful lives used in the calculation of depreciation are:

Buildings and improvements	30-35 years
Leasehold improvements	Life of lease or 20 years
Equipment	3-10 years

Impairment of Long-Lived Assets

The Agency reviews long lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Other Long-Term Assets

Other long-term assets consist of donated land. The land is not used in operations nor is it being held for sale.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies (continued)

Asset Retirement Obligation

The asset retirement obligation consists of estimated costs and obligations associated with the retirement of long-lived assets. These liabilities are recorded at the estimated costs to remove asbestos.

Grant Advance Payable

Grant advance payable consists of a cash advance received on a government grant that is not fully earned. The revenue will be recognized in subsequent years when the expenses are incurred.

Tax-Exempt Status

Catholic Charities and the Foundation have received notification that they qualify as tax exempt organizations under Section 501(c)(3) covered by the U.S. Internal Revenue Service group exemption letter of the United States Conference of Catholic Bishops and corresponding provisions of state law and, accordingly, are not subject to federal or state income taxes.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Agency are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations.

Permanently Restricted Net Assets - Net assets subject to donor imposed stipulations that they be maintained permanently by the Agency. The donors of these assets permit the Agency to use all or part of the income earned on related investments for general or specific purposes.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue from federal and state grants is recognized to the extent of eligible accrual basis expenditures for each grant.

In-kind Contributions

The Agency reports various types of contributed goods and services as support, including supplies, professional services, and equipment. Donated supplies and equipment are recognized at their estimated values on the date received.

The Agency reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long lived assets are reported as restricted support.

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

In-kind goods and services totaled \$102,160 and \$160,680 for the years ended December 31, 2016 and 2015, respectively and are reflected as public support and expenses on the consolidated statements of activities.

The Agency also received contributed services for its various programs from volunteers which do not meet the recognition criteria described above. No amounts have been reflected in the consolidated financial statements for these contributed services.

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The program services function includes all expenses directly related to the Agency's activities and programs. The supporting services function includes management and general expenses not directly associated with activities and programs and fundraising expenses.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 2 - Fair Value of Financial Instruments

As defined by current authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Agency uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Agency attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the inputs used in the valuation methods, the Agency is required to provide certain information, which is set forth below, according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the inputs used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

- Level 1 Quoted market prices in active markets for identical assets or liabilities.

- Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.

- Level 3 Unobservable inputs that are not corroborated by market data.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31:

	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 24,780	\$ -	\$ 24,780
Equity securities	32,115	-	-	32,115
Equity mutual funds	363,246	-	-	363,246
Bond funds	255,001	-	-	255,001
Catholic Community Foundation	-	-	1,060,224	1,060,224
Total Assets	<u>\$ 650,362</u>	<u>\$ 24,780</u>	<u>\$ 1,060,224</u>	<u>\$ 1,735,366</u>

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 2 - Fair Value of Financial Instruments (continued)

	2015			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 42,732	\$ -	\$ 42,732
Equity securities	29,463	-	-	29,463
Equity mutual funds	324,754	-	-	324,754
Bond funds	241,274	-	-	241,274
Catholic Community Foundation	-	-	970,633	970,633
Total Assets	\$ 595,491	\$ 42,732	\$ 970,633	\$ 1,608,856

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

Balance, December 31, 2015	\$ 970,633
Net gains (realized and unrealized) included in change in net assets	82,107
Interest and dividends	19,229
Less fees	(11,745)
Balance, December 31, 2016	<u>\$ 1,060,224</u>
Balance, December 31, 2014	\$ 1,008,513
Net losses (realized and unrealized) included in change in net assets	(44,134)
Interest and dividends	17,613
Less fees	(11,359)
Balance, December 31, 2015	<u>\$ 970,633</u>

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Equity securities, equity mutual funds and bond funds - These investments are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Money market funds - The fair value of short-term investments, consisting primarily of money market funds is classified as Level 2 as these funds are not traded on a regular basis.

Catholic Community Foundation - The Agency classifies investments which are held at the Archdiocese of Milwaukee Catholic Community Foundation, Inc. ("CCF") as Level 3. It is not possible to determine a daily value of the Foundation's portion of the commingled investment portfolio. The portfolio is divided among a group of investment managers to achieve diversification. CCF's policy requires a written distribution request to be submitted at least 60 days prior to the required distribution date. If a request is for more than 50% of the account balance at the time of the request, CCF reserves the right to defer payment of the amount for up to six months after receipt of the written distribution request.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 2 - Fair Value of Financial Instruments (continued)

While the Agency believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

NOTE 3 - Investments

Net investment income (loss) for Agency investments for the years ended December 31:

	2016	2015
Net realized gains (losses) on investments	\$ (25,677)	\$ 53,677
Net unrealized gains (losses) on investments	134,300	(113,586)
Interest and dividends	37,773	38,402
Less investment fees	(19,876)	(20,390)
Total	\$ 126,520	\$ (41,897)

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the consolidated financial statements.

NOTE 4 - Property and Equipment

The major categories of property and equipment at December 31 are summarized as follows:

	2016	2015
Land	\$ 119,350	\$ 119,350
Buildings and improvements	1,292,605	1,292,605
Leasehold improvements	227,935	227,935
Equipment	445,337	412,968
Total Property and Equipment	2,085,227	2,052,858
Less: Accumulated depreciation	(952,073)	(854,665)
Net Property and Equipment	\$ 1,133,154	\$ 1,198,193

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 5 - Unconditional Promises to Give

Unconditional promises to give are expected to be realized in the following periods as of December 31:

Amounts due in:	<u>2016</u>	<u>2015</u>
Less than one year	\$ 1,125,555	\$ 1,096,715
One to five years	<u>50,000</u>	<u>-</u>
	1,175,555	1,096,715
Less: Unamortized discount and allowance	<u>4,800</u>	<u>11,700</u>
Totals	<u>\$ 1,170,755</u>	<u>\$ 1,085,015</u>

NOTE 6 - Affiliate

The Agency is one of the grant recipients of funds raised by the Archdiocese of Milwaukee ("Archdiocese") in the Catholic Stewardship Appeal. The Stewardship grant is a primary source of funding for the Agency. Such contributions were \$1,178,104 and \$1,249,196 for the years ended December 31, 2016 and 2015, respectively. The unconditional promise to give from the Archdiocese was \$576,552 at December 31, 2016 and 2015.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 7 - Long-Term Debt

Long-term debt consists of the following at December 31:

	2016	2015
Note payable secured by equipment with interest at 5.28%. Monthly principal and interest payments of \$1,646. Due December 2017.	\$ -	\$ 34,655
Mortgage payable secured by land and building with interest at 5%. Monthly principal and interest payments of \$1,940. Due September 2018.	-	274,401
Mortgage payable secured by land and building with interest at 4.45%. Monthly principal and interest payments of \$2,026. Due February 2018.	197,939	213,190
Mortgage payable secured by land and building with interest at 4.25%. Monthly principal and interest payments of \$2,353. Due November 2018.	208,687	227,458
Mortgage payable secured by land and building with interest at 4.00%. Monthly principal and interest payments of \$1,945. Due March 2019.	262,681	-
Totals	669,307	749,704
Less: Current portion	(48,259)	(60,876)
Long-Term Portion	\$ 621,048	\$ 688,828

Principal requirements on long-term debt for years ending after December 31, 2016 are as follows:

2017	\$ 48,259
2018	384,747
2019	236,301
Total	\$ 669,307

Interest on long-term debt and the line of credit was \$38,738 and \$19,432 for the years ended December 31, 2016 and 2015, respectively.

The Agency has a line of credit agreement establishing a credit level of \$250,000 through Park Bank with interest at prime plus .25% (3.75% at December 31, 2016). The Agency did not take any draws nor had any amounts outstanding on the line of credit agreement at December 31, 2016 and 2015.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 8 - Asset Retirement Obligation

Following is a reconciliation of the asset retirement obligation associated with the Agency's removal of asbestos.

	2016	2015
Beginning balance	\$ 41,533	\$ 41,021
Increase in present value of obligation	953	512
Asbestos removal	(9,749)	-
Ending Balance	\$ 32,737	\$ 41,533

NOTE 9 - Employee Benefit Plans

403(b) Plan

The Agency has a defined contribution retirement savings plan covering substantially all eligible employees. The Agency makes a 4% contribution based on employees' salaries. Additionally, a 2% discretionary contribution to the plan is provided. Pension expense was \$139,467 and \$116,305 for the years ended December 31, 2016 and 2015, respectively.

Pension Reversion Agreement

In 1988, the Agency switched from a defined benefit pension plan to a defined contribution plan. Recognizing this change would negatively impact its members, the Union demanded that existing employees be made whole through the use of a pension reversion agreement. An independent actuary utilized then employees' salary, age, length of time until retirement, and length of service to determine the "shortfall" between the two plans. Once determined, a "reversion factor" for each employee was set, which was to be used to multiply against their annual earnings to arrive at a "bonus" payment for each year they remained employed by the Agency, until retirement. From 1988 until 1996, no annual payments were made to the affected employees, resulting in the need for an additional "lump sum" payment at date of retirement for each individual. The pension reversion agreement liability includes this lump sum payment and the annual payments through retirement and was \$0 and \$3,384 as of December 31, 2016 and 2015, respectively.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 10 - Net Assets

Temporarily restricted net assets consist of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Temporarily restricted as to timing:		
United Way Allocation		
Behavioral Health Program	\$ 194,627	\$ 208,188
Outreach	60,578	67,951
Migrant & Refugee Services Program	12,000	12,550
In-Home Support Services Program	75,186	84,260
Child Welfare Program	<u>49,882</u>	<u>55,578</u>
	<u>392,273</u>	<u>428,527</u>
Archdiocese of Milwaukee		
Adult Day Services Program	25,000	47,500
Behavioral Health Program	125,000	152,000
Outreach	150,000	150,500
Migrant & Refugee Services Program	75,000	26,552
In-Home Support Services Program	125,000	75,000
Child Welfare Program	26,552	125,000
Operations	<u>50,000</u>	<u>-</u>
	<u>576,552</u>	<u>576,552</u>
Pledges Receivable	170,768	93,265
Miscellaneous Restrictions due to Timing	<u>7,673</u>	<u>-</u>
	<u>178,441</u>	<u>93,265</u>
Temporarily restricted as to purpose:		
Behavioral Health Program	31,250	14,243
Child Welfare Program	56,000	-
In-Home Support Services Program	2,000	-
Legal Services	10,000	75,000
Outreach	26,250	15,000
Miscellaneous Restrictions by Purpose	70,203	24,738
Earnings on Endowment Funds	<u>186,859</u>	<u>60,349</u>
	<u>382,562</u>	<u>189,330</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,529,828</u>	<u>\$ 1,287,674</u>

Permanently restricted net assets consist of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Pregnancy counseling and support	\$ 9,422	\$ 9,422
Endowment fund	<u>1,548,507</u>	<u>1,548,507</u>
Total Permanently Restricted Net Assets	<u>\$ 1,557,929</u>	<u>\$ 1,557,929</u>

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 11 - Endowment

The Agency follows the provisions of current authoritative guidance relating to endowments of not for profit organizations, which provides guidance on classifying net assets associated with donor-restricted and board designated endowment funds held by an organization. A key component of the guidance is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. As is the policy of the Agency, restrictions on investment income which are met in the current period are reported as unrestricted.

Interpretation of Relevant Law – The Agency has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. The Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA as adopted by the state of Wisconsin. If the fair value of the permanently restricted net assets at year end is below the original fair value, the deficit is recorded as an unrestricted unrealized loss after all temporarily restricted earnings are exhausted.

Fund Objectives and Policies – The endowment fund is established to assist the Agency in its mission by providing support for the operations and activities of the Agency's programs and services. The endowment fund consists of donor restricted gifts. The endowment fund is invested in a manner which attempts to provide a stream of funding for the purposes supported by the endowment as well as maintaining the purchasing power of the endowment assets. The fund is currently invested with a foundation in a manner intended to assume a moderate level of investment risk while pursuing a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Foundation investments are screened to comply with socially responsible investment principles consistent with Catholic Social Teaching. The Agency spending policy is that under normal circumstances only the income and appreciation of the fund are to be used for the fund's support purposes. This is consistent with the objective to maintain the principal of the endowment assets as well as to provide additional real growth through new gifts.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 11 - Endowment (continued)

Endowment net asset composition by type of fund for the years ended December 31 consists of the following:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 186,859	\$ 1,548,507	\$ 1,735,366
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 60,349	\$ 1,548,507	\$ 1,608,856

Changes in endowment net assets for the years ended December 31 are as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, December 31, 2015	\$ -	\$ 60,349	\$ 1,548,507	\$ 1,608,856
Investment Return				
Investment income net of fees	-	17,887	-	17,887
Net appreciation realized and unrealized	-	108,623	-	108,623
Total investment return	-	126,510	-	126,510
Endowment Net Assets, December 31, 2016	\$ -	\$ 186,859	\$ 1,548,507	\$ 1,735,366

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 11 - Endowment (continued)

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, December 31, 2014	\$ -	\$ 120,761	\$ 1,548,507	\$ 1,669,268
Investment Return				
Investment income net of fees	-	18,917	-	18,917
Net depreciation realized and unrealized	-	(59,909)	-	(59,909)
Total investment return	-	(40,992)	-	(40,992)
Distribution	-	(19,420)	-	(19,420)
Endowment Net Assets, December 31, 2015	\$ -	\$ 60,349	\$ 1,548,507	\$ 1,608,856

NOTE 12 - Operating Leases

The Agency leases facilities and equipment under lease agreements expiring at various dates through December 2021. Two leases require lease payments plus pro-rata increases on real estate taxes and operating expenses.

Future minimum lease payments as of December 31, 2016 are as follows:

2017	\$ 54,958
2018	12,743
2019	11,434
2020	7,618
2021	6,983
	\$ 93,736

Rent expense on the operating leases was \$94,401 and \$93,886 for the years ended December 31, 2016 and 2015, respectively.

NOTE 13 - Concentrations

The Agency maintains a cash balance in one institution which exceeds the federally insured limit of \$250,000. The Agency has not experienced any losses in the account and believes it is not exposed to any significant credit risk on cash.

The Agency has a collective bargaining agreement which covers approximately 44% and 47% of employees for 2016 and 2015, respectively. The agreement will expire on December 31, 2019.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 13 - Concentrations (continued)

Approximately 52% and 47% of revenue were from three different funding sources for the years ended December 31, 2016 and 2015, respectively. Receivables from these funding sources totalled \$1,200,407 and \$1,219,549 as of December 31, 2016 and 2015, respectively. A significant reduction in funds received from these funding sources could have a negative impact on the Agency's operations.

NOTE 14 - Protected Self-Insurance Program

The Agency participates in a protected self-insurance program along with various other Catholic entities operating within the boundaries of the Archdiocese. Premiums and loss reserves are determined and claims are processed by a service agency on a contractual basis.

Losses are paid from the loss fund of the protected self-insurance program to which premiums are paid by the Agency. No single claim from the loss fund may exceed a specified maximum. Claims in excess of this maximum are fully covered by insurance.

NOTE 15 - Commitments and Contingencies

Financial Awards from Grantors

Financial awards from federal, state and local governments in the form of grants are subject to special audit. Such audits could result in claims against the Agency for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

NOTE 16 - Subsequent Events

The Agency has evaluated subsequent events through April 24, 2017 which is the date that the financial statements were approved and available to be issued.

OTHER INDEPENDENT AUDITORS' REPORTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation
Milwaukee, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation (the "Agency"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
April 24, 2017

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL AND MAJOR STATE PROGRAM AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE
STATE SINGLE AUDIT GUIDELINES

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation
Milwaukee, Wisconsin

Report on Compliance for the Major Federal and Major State Program

We have audited Catholic Charities of the Archdiocese of Milwaukee, Inc. and Foundation's ("Agency") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on the Agency's major federal and major state programs for the year ended December 31, 2016. The Agency's major federal and major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its awards applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal and major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *State Single Audit Guidelines (Guidelines)*. Those standards, the Uniform Guidance and the *Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or a major state program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and major state program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on the Major Federal and Major State Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and major state programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal or major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal or major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the *Guidelines*. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin

April 24, 2017

SUPPLEMENTAL INFORMATION

CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended December 31, 2016

FEDERAL AWARDS	CFDA	Pass- Through	Federal
<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through Community Action of Walworth County Emergency Shelter Grants - State Administered Programs	14.231	Unknown	\$ <u>10,294</u>
U.S. DEPARTMENT OF STATE			
Passed through United States Conference of Catholic Bishops U.S. Refugee Admissions Program	19.510	13957101	<u>1,477,155</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Direct Award Veterans State Adult Day Health Care	64.026	N/A	13,034
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through United States Conference of Catholic Bishops Refugee and Entrant Assistance	93.567	13957101	421,109
Passed through Wisconsin Department of Children and Families Refugee and Entrant Assistance - State Administered Programs	93.566	R5	179,361
Refugee and Entrant Assistance - Discretionary Grants	93.576	R5	76,731
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	R5	<u>137,222</u>
Total U.S. Department of Health and Human Services			<u>814,423</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,314,906</u>

STATE AWARDS	State ID	Pass- Through	State
<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
WISCONSIN DEPARTMENT OF ADMINISTRATION			
Passed through Community Action of Walworth County Emergency Shelter Grants - Homeless Prevention Programs	505.703B	Not Available	\$ <u>820</u>

See accompanying notes to schedule of expenditures of federal and state awards.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended December 31, 2016**

Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state grant activity of the Agency under programs of the federal and state government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines*. Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Agency.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the OMB A-122 *Cost Principles for Non-Profit Organizations*, or the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where applicable. The Agency has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016**

Section I: Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal and State Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Type of auditors' report issued on compliance for major programs:

unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ yes X no

Identification of major federal programs:

CFDA Number(s)
19.510

Name of Federal Program or Cluster
U.S. Refugee Admissions Program

Identification of major state programs:

CFDA / State ID Number(s)
93.566

Name of State Program or Cluster
Refugee and Entrant Assistance - State Administered Programs

Dollar threshold used to distinguish between federal Type A and Type B programs

\$750,000

Dollar threshold used to distinguish between state Type A and Type B programs

\$250,000

Auditee qualified as low-risk auditee?

 X yes _____ no

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

For the Year Ended December 31, 2016

Section II: Financial Statement Findings

There were no findings

Section III: Federal and State Findings and Questioned Costs

There were no findings or questioned costs.

Section IV: Other Issues

Does the auditor's report or notes to consolidated financial statements include disclosures with regard to substantial doubt as to the auditee's ability to continue as a going concern?

_____ yes X no

Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, questioned costs, material weaknesses, significant deficiencies, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*:

Department of Children and Families
Department of Administration

_____ yes X no
_____ yes X no

Was a management letter or other document conveying audit comments issued as a result of this audit?

 X yes _____ no

Name and signature of partner



Paul F. Batchelor, CPA

Date of the report

April 24, 2017

**CATHOLIC CHARITIES OF THE ARCHDIOCESE OF MILWAUKEE, INC. AND
FOUNDATION**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2016**

The prior year single audit disclosed no findings, and therefore, no uncorrected or unresolved findings exist from prior single audits.